



## **UMZINYATHI DISTRICT MUNICIPALITY**

Annual Financial Statements  
for the year ended 30 June 2018

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## General Information

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### Mayoral committee

Mayor

Cllr PMS Ngubane

Councillors

Cllr NG Mdalalose  
Cllr LWS Ngubane  
Cllr LG Mabaso  
Cllr MS Yengwa  
Cllr XS Xaba  
Cllr TH Mchunu  
Cllr LN Dladla  
Cllr NC Xaba  
Cllr BS Chambule  
Cllr CZ Mbatha  
Cllr BP Ngcobo  
Cllr BP Madondo  
Cllr B Mthethwa  
Cllr SK Radebe  
Cllr TM Mahaye  
Cllr PP Ntombela  
Cllr EM Mkhwanazi  
Cllr PM Ngobese  
Cllr LC Moloi  
Cllr TJ Motloung  
Cllr RN Ngubane  
Cllr FE Khumalo  
Cllr TC Ngubane  
Cllr PS Hlophe  
Cllr IL Shabalala  
Cllr SR Mbatha

Speaker of the Council

Cllr FJ Sikhakhane

Grading of local authority

Grade 4

Accounting Officer

SB Ndabandaba

Chief Finance Officer (CFO)

SS Mhlongo

Registered office

39 Victoria Street  
Princess Magogo Building  
Dundee  
3000

Business address

39 Victoria Street  
Princess Magogo Building  
Dundee  
3000

Postal address

PO Box 1965  
Dundee  
3000

Telephone number, Website & E-mail

034 219 1500  
[www.umzinyathi.gov.za](http://www.umzinyathi.gov.za)  
[rc3@umzinyathi.gov.za](mailto:rc3@umzinyathi.gov.za)

Bankers

First National Bank

Auditors

Auditor General

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **Umzinyathi District Municipality**

Annual Financial Statements for the year ended 30 June 2018

## **Accounting Officer's Responsibilities and Approval**

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I am responsible for the preparation of these annual financial statements, which are set out on pages 3 to 67, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



**S.B Ndabandaba**  
Accounting Officer

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Position as at 30 June 2018

Statement of Financial Position	Notes	2018	2017 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	1,227,505	697,331
Receivables from non-exchange transactions	3	12,609,864	16,358,607
VAT receivable	4	15,194,852	15,770,979
Receivables from exchange transactions	5	63,965,580	79,264,766
Cash and cash equivalents	6	150,841,372	68,850,920
		<b>243,839,173</b>	<b>180,942,603</b>
<b>Non-Current Assets</b>			
Infrastructure	7	2,115,515,540	1,840,233,125
Investment property	8	848,353	848,353
Property, plant and equipment	9	86,993,943	82,408,274
Intangible assets	10	812,234	548,895
Interest in joint ventures	11	268,303,625	295,228,554
		<b>2,472,473,695</b>	<b>2,219,267,201</b>
<b>Total Assets</b>		<b>2,716,312,868</b>	<b>2,400,209,804</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Short term liability	12	-	669,155
Payables from exchange transactions	13	125,531,294	74,207,571
Consumer deposits	14	459,132	467,239
Unspent conditional grants and receipts	15	37,725,288	36,749,490
Provisions	16	11,992,076	10,792,492
		<b>175,707,790</b>	<b>122,885,947</b>
<b>Non-Current Liabilities</b>			
Long term liability	17	64,191,401	64,191,401
Employee benefit obligation	18	23,621,000	24,222,000
		<b>87,812,401</b>	<b>88,413,401</b>
<b>Total Liabilities</b>		<b>263,520,191</b>	<b>211,299,348</b>
<b>Net Assets</b>		<b>2,452,792,677</b>	<b>2,188,910,456</b>
Reserves			
Other reserves		698,434,731	698,434,731
Accumulated surplus		1,754,357,946	1,490,475,725
<b>Total Net Assets</b>		<b>2,452,792,677</b>	<b>2,188,910,456</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Financial Performance

Statement of Financial Position	Notes	2018	2017 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	19	58,179,315	44,326,518
Rental of facilities and equipment	20	411,174	467,706
Interest earned- outstanding debtors	21	14,116,532	11,556,733
Other income	22	669,232	224,907
Interest earned- investments	23	16,934,290	12,920,588
Gain on disposal of assets	9	465,581	-
<b>Total revenue from exchange transactions</b>		<b>90,776,124</b>	<b>69,496,452</b>
<b>Revenue from non-exchange transactions</b>			
<b>Gains and donations received</b>			
Actuarial gain from post retirement	18	1,217,771	1,642,351
Transfer/donation received	9	-	5,291,853
<b>Transfer revenue</b>			
Government grants & subsidies	24	599,145,561	621,731,114
<b>Total revenue from non-exchange transactions</b>		<b>600,363,332</b>	<b>628,665,318</b>
<b>Total revenue</b>	25	<b>691,139,456</b>	<b>698,161,770</b>
<b>Expenditure</b>			
Employee related costs	26	(128,359,924)	(113,168,578)
Remuneration of councillors	27	(5,259,653)	(3,242,001)
Depreciation and amortisation	28	-	(24,961,656)
Finance costs	29	(86,899)	(654,839)
Lease rentals on operating lease	30	(806,165)	(1,017,022)
Provision for debt impairment	31	(72,771,638)	(11,758,124)
Post Retirement Benefits		(616,771)	(697,500)
Bulk purchases	32	(16,089,868)	(14,335,860)
Contracted services	33	(112,950,998)	(110,706,134)
Share of deficits from joint venture accounted for using the equity method	11	(26,924,929)	(40,407,701)
General Expenses	34	(63,390,392)	(122,634,173)
<b>Total expenditure</b>		<b>(427,257,237)</b>	<b>(443,583,588)</b>
<b>Surplus for the year</b>		<b>263,882,219</b>	<b>254,578,182</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Changes in Net Assets

Statement of Financial Position	Other Reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	698,434,731	1,241,026,735	1,939,461,466
Adjustments			
Correction of errors	-	(5,129,192)	(5,129,192)
<b>Balance at 01 July 2016 as restated*</b>	<b>698,434,731</b>	<b>1,235,897,543</b>	<b>1,934,332,274</b>
Changes in net assets			
Surplus for the year	-	254,578,182	254,578,182
<b>Total changes</b>	<b>-</b>	<b>254,578,182</b>	<b>254,578,182</b>
Opening balance as previously reported	698,434,731	1,495,604,919	2,194,039,650
Adjustments			
Correction of errors	-	(5,129,192)	(5,129,192)
<b>Restated* Balance at 01 July 2017 as restated*</b>	<b>698,434,731</b>	<b>1,490,475,727</b>	<b>2,188,910,458</b>
Changes in net assets			
Surplus for the year	-	263,882,219	263,882,219
<b>Total changes</b>	<b>-</b>	<b>263,882,219</b>	<b>263,882,219</b>
<b>Balance at 30 June 2018</b>	<b>698,434,731</b>	<b>1,754,357,946</b>	<b>2,452,792,677</b>

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# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Cash Flow Statement

Statement of Financial Position

Notes

2018

2017  
Restated\*

### Cash flows from operating activities

#### Receipts

Sale of goods and services	32,724,289	24,228,639
Grants	616,823,347	691,079,387
Interest income	16,934,290	12,920,588
Other receipts	1,036,375	692,328
	<u>667,518,301</u>	<u>728,920,942</u>

#### Payments

Employee costs	(133,619,577)	(116,410,579)
Suppliers	(147,009,623)	(322,802,036)
	<u>(280,629,200)</u>	<u>(439,212,615)</u>

### Net cash flows from operating activities

37 **386,889,101** **289,708,327**

### Cash flows from investing activities

Purchase of property, plant and equipment	9	(4,585,669)	(11,553,971)
Proceeds from sale of property, plant and equipment	9	465,581	360,621
Purchase of other intangible assets	10	(548,000)	(187,616)
Proceeds from sale of other intangible assets	10	-	3,545
Purchase of infrastructure	7	(299,474,507)	(261,299,476)
		<u>(304,142,595)</u>	<u>(272,676,897)</u>

### Cash flows from financing activities

Movement in short term portion: of long term liabilities	(669,155)	(8,461,007)
Finance costs	(86,899)	(654,839)
	<u>(756,054)</u>	<u>(9,115,846)</u>

### Net increase in cash and cash equivalents

**81,990,452** **7,915,584**

Cash and cash equivalents at the beginning of the year

68,850,920 60,935,336

Cash and cash equivalents at the end of the year

6 **150,841,372** **68,850,920**



# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reason for difference
Statement of Financial Position						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	78,823,404	(33,263,965)	<b>45,559,439</b>	58,179,315	<b>12,619,876</b>	One facility during the financial year became vacant no rent was recieved.
Rental of facilities and equipment	519,120	(97,001)	<b>422,119</b>	411,174	<b>(10,945)</b>	
Interest earned- outstanding debtors	13,281,108	(44,844)	<b>13,236,264</b>	14,116,532	<b>880,268</b>	
Other income	19,548	293,155	<b>312,703</b>	669,232	<b>356,529</b>	Rate variances and period differences on grant funds.
Interest received - investment	12,438,204	2,000,000	<b>14,438,204</b>	16,934,290	<b>2,496,086</b>	
<b>Total revenue from exchange transactions</b>	<b>105,081,384</b>	<b>(31,112,655)</b>	<b>73,968,729</b>	<b>90,310,543</b>	<b>16,341,814</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Actuarial gain from post retirement	-	-	-	1,217,771	<b>1,217,771</b>	There had been a decline in post retirement benefit calculations thus resulting in revenue to the municipality.
<b>Transfer revenue</b>						
Government grants & subsidies	669,025,608	100,652	<b>669,126,260</b>	599,145,561	<b>(69,980,699)</b>	Grants are only recognised as revenue once conditions are met, some grants have not met their conditions as at 30 June 2018.
<b>Total revenue from non-exchange transactions</b>	<b>669,025,608</b>	<b>100,652</b>	<b>669,126,260</b>	<b>600,363,332</b>	<b>(68,762,928)</b>	
<b>Total revenue</b>	<b>774,106,992</b>	<b>(31,012,003)</b>	<b>743,094,989</b>	<b>690,673,875</b>	<b>(52,421,114)</b>	
<b>Expenditure</b>						
Personnel	(113,902,080)	(26,098,022)	<b>(140,000,102)</b>	(128,359,924)	<b>11,640,178</b>	
Remuneration of councillors	(4,823,208)	(11,754)	<b>(4,834,962)</b>	(5,259,653)	<b>(424,691)</b>	

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reason for difference
Statement of Financial Position						
Depreciation and amortisation	(67,074,480)	27,159,835	<b>(39,914,645)</b>	-	<b>39,914,645</b>	Interest paid differed from the amortisation schedule submitted by Endumeni when the budget was prepared.
Finance costs	(86,899)	(27,150)	<b>(114,049)</b>	(86,899)	<b>27,150</b>	
Lease rentals on operating lease	(1,352,604)	538,450	<b>(814,154)</b>	(806,165)	<b>7,989</b>	Increase in the demand of volumes provided by Uthukela Water (Pty) Ltd.
Provision for bad debts	(27,915,528)	13,418,351	<b>(14,497,177)</b>	(72,771,638)	<b>(58,274,461)</b>	
Post retirement benefits	(7,599,996)	-	<b>(7,599,996)</b>	(616,771)	<b>6,983,225</b>	
Bulk purchases	(13,966,740)	(597,881)	<b>(14,564,621)</b>	(16,089,868)	<b>(1,525,247)</b>	
Contracted Services	(74,490,372)	(29,596,783)	<b>(104,087,155)</b>	(112,950,998)	<b>(8,863,843)</b>	The municipality experienced challenges in the procurement of water related services.
General Expenses	(55,083,276)	6,502,418	<b>(48,580,858)</b>	(63,390,392)	<b>(14,809,534)</b>	
<b>Total expenditure</b>	<b>(366,295,183)</b>	<b>(8,712,536)</b>	<b>(375,007,719)</b>	<b>(400,332,308)</b>	<b>(25,324,589)</b>	
<b>Operating surplus</b>	<b>407,811,809</b>	<b>(39,724,539)</b>	<b>368,087,270</b>	<b>290,341,567</b>	<b>(77,745,703)</b>	
Gain on disposal of assets and liabilities	-	-	-	465,581	<b>465,581</b>	
Interest in joint venture	-	-	-	(26,924,929)	<b>(26,924,929)</b>	
	-	-	-	<b>(26,459,348)</b>	<b>(26,459,348)</b>	
<b>Deficit before taxation</b>	<b>407,811,809</b>	<b>(39,724,539)</b>	<b>368,087,270</b>	<b>263,882,219</b>	<b>(104,205,051)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>407,811,809</b>	<b>(39,724,539)</b>	<b>368,087,270</b>	<b>263,882,219</b>	<b>(104,205,051)</b>	

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 1.2 Changes in accounting policy.

#### 1.1 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost value of the investment property can be measured reliably.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The nature OR type of properties classified as held for strategic purposes are as follows:

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Item	Depreciation method	Average useful life
Infrastructure	Straight line	10-100 years
Other property, plant and equipment	Straight line	4-15 years

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The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.4 Intangible assets (continued)

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

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Item	Depreciation method	Average useful life
Computer software, other	Straight line	5 years

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### 1.5 Interest in joint ventures

Interest in joint ventures are accounted for using the equity method. The carrying amount of the interest in joint venture is calculated at cost plus the entity's subsequent share of the joint ventures comprehensive income. If at the end of a reporting period there is an indication that an interest in a joint venture may be impaired, the entire carrying amount of the joint venture is tested for impairment. If the carrying amount of the joint venture is found to be less than its recoverable amount, the carrying amount is reduced to its recoverable amount and an impairment loss is immediately recognised in profit or loss.

### 1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

# Umzinyathi District Municipality

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### 1.6 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

# Umzinyathi District Municipality

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### 1.6 Financial instruments (continued)

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.



# Umzinyathi District Municipality

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### 1.6 Financial instruments (continued)

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# Umzinyathi District Municipality

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Umzinyathi District Municipality

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### 1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Trade and other receivables

Trade and other receivables are categorized as financial assets: loans and receivables and recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Significant financial difficulties of the debtor, probabilities that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off.

### 1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale exchange or distribution.

# Umzinyathi District Municipality

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## Accounting Policies

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### 1.8 Inventories (continued)

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Construction contracts and receivables

Consumer deposits and creditors are initially stated at their nominal value.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

# Umzinyathi District Municipality

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### 1.10 Impairment of cash-generating assets (continued)

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

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## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Umzinyathi District Municipality

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## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.



# Umzinyathi District Municipality

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### 1.11 Impairment of non-cash-generating assets (continued)

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 1.11 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.13 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

#### Other post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

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### 1.14 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.
- Commitments disclosed are inclusive of VAT where suppliers are VAT vendors.

### 1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.16 Revenue from exchange transactions (continued)

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

### 1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.21 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

### 1.24 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:



# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Accounting Policies

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### 1.24 Events after reporting date (continued)

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.25 New standards and interpretations

Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

- Grap 20: Related parties
- GRAP32: Service Concession Arrangements: Grantor
- GRAP108: Statutory Receivables
- Grap 109: Standard of GRAP on accounting by principals and agents

### 1.26 Transfers of functions between entities not under common control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions. In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values. The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit). For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>2. Inventories</b>		
Water on hand	107,447	75,154
Chemicals	1,120,058	622,177
	<b>1,227,505</b>	<b>697,331</b>
Inventory is valued at lower of cost or net realisable value.		
<b>3. Receivables from non-exchange transactions</b>		
Agreement/Arrangement debtors	109,704	3,439
Debtor-Interest accrued	-	105,771
Sundry debtors	8,115,658	11,864,895
Uthukela receipting debtor	4,384,502	4,384,502
	<b>12,609,864</b>	<b>16,358,607</b>
<b>4. VAT receivable</b>		
VAT	15,194,852	15,770,979
VAT is prepared on a cash basis. This receivable is as a result of expenditure incurred.		
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Water	120,374,656	88,919,872
Sewerage	36,265,069	27,234,253
Consumer debtor - Vat payable	34,058,583	28,484,340
Consumer debtor - Interest	63,194,253	51,848,881
Consumer debtor - payments in advance / adjustment	(2,202,959)	(2,270,196)
	<b>251,689,602</b>	<b>194,217,150</b>
<b>Less: Allowance for impairment</b>		
Water	(81,652,083)	(45,246,733)
Sewerage	(27,402,567)	(15,256,501)
VAT payable	(26,793,301)	(19,104,656)
Interest	(51,876,071)	(35,344,494)
	<b>(187,724,022)</b>	<b>(114,952,384)</b>
<b>Net balance</b>		
Water	38,722,573	43,673,139
Sewerage	8,862,502	11,977,752
Consumer debtor - VAT payable	7,265,282	9,379,684
Consumer debtor - Interest	11,318,182	16,504,387
Consumer debtor - payments in advance / adjustment	(2,202,959)	(2,270,196)
	<b>63,965,580</b>	<b>79,264,766</b>
<b>Water</b>		
Current (0 -30 days)	13,820,458	1,246,285
31 - 60 days	4,469,792	2,445,207
61 - 90 days	4,072,691	2,091,038
91 - 120 days	4,100,236	2,346,163
>121 days	93,911,480	80,791,178
Impairment	(81,652,084)	(45,246,732)
	<b>38,722,573</b>	<b>43,673,139</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Sewerage</b>		
Current (0 -30 days)	3,184,206	1,820,019
31 - 60 days	1,165,173	255,090
61 - 90 days	1,032,277	645,298
91 - 120 days	1,135,695	687,785
>121 days	29,747,718	23,826,061
Impairment	(27,402,567)	(15,256,501)
	<b>8,862,502</b>	<b>11,977,752</b>
<b>Vat Payable</b>		
Current (0 -30 days)	2,539,929	992,585
31 - 60 days	825,418	374,072
61 - 90 days	758,142	383,233
91 - 120 days	716,729	423,744
>121 days	29,218,365	26,310,708
Impairment	(26,793,301)	(19,104,658)
	<b>7,265,282</b>	<b>9,379,684</b>
<b>Interest</b>		
Current (0 -30 days)	1,429,101	996,175
31 - 60 days	1,387,441	985,361
61 - 90 days	1,339,246	938,544
91 - 120 days	1,286,229	917,220
>121 days	57,752,237	48,011,581
Impairment	(51,876,072)	(35,344,494)
	<b>11,318,182</b>	<b>16,504,387</b>
<b>Payments in advance/ adjustments</b>		
Current (0 -30 days)	(166,312)	172,734
31 - 60 days	(164,413)	(94,149)
61 - 90 days	(72,788)	(67,692)
91 - 120 days	(119,192)	(152,405)
>121 days	(1,680,254)	(2,128,684)
	<b>(2,202,959)</b>	<b>(2,270,196)</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Summary of receivables by customer classification</b>		
<b>Domestic Consumers</b>		
Current (0 -30 days)	8,810,802	5,523,750
31 - 60 days	4,181,962	2,581,572
61 - 90 days	3,958,176	2,315,649
91 - 120 days	3,082,682	2,602,926
121 - 365 days	134,325,003	118,477,446
Payments in advance/ adjustments	(2,025,863)	(1,634,823)
	152,332,762	129,866,520
Less: Allowance for impairment	(131,730,088)	(45,246,733)
	<b>20,602,674</b>	<b>84,619,787</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	1,801,642	2,186,472
31 - 60 days	933,415	198,700
61 - 90 days	953,154	301,974
91 - 120 days	425,859	326,308
121 - 365 days	12,669,213	10,724,728
Payments in advance/ adjustments	(178,710)	(216,253)
	<b>16,604,573</b>	<b>13,521,929</b>
<b>Indigent</b>		
Current (0 -30 days)	2,531,202	1,114,628
31 - 60 days	1,276,513	603,160
61 - 90 days	1,287,312	658,478
91 - 120 days	1,095,926	728,850
121 - 365 days	50,230,840	30,875,919
Payments in advance/ adjustments	(12,501)	(13,644)
Less: Allowance for impairment	(56,409,292)	(27,699,434)
	<b>-</b>	<b>6,267,957</b>
<b>Provincial government</b>		
Current (0 -30 days)	7,830,046	837,982
31 - 60 days	1,455,935	676,297
61 - 90 days	1,003,715	782,013
91 - 120 days	2,634,423	716,827
>121 days	13,404,743	14,626,577
Payments in advance/ adjustments	14,114	(405,476)
	<b>26,342,976</b>	<b>17,234,220</b>
<b>Total</b>		
Current (0 -30 days)	20,973,691	5,061,013
31 - 60 days	7,847,824	4,059,729
61 - 90 days	7,202,357	4,058,114
91 - 120 days	7,238,890	4,374,912
>121 days	210,629,799	178,933,578
Payments in advance/ adjustments	(2,202,959)	(2,270,196)
	251,689,602	194,217,150
Less: Allowance for impairment	(187,724,022)	(114,952,384)
	<b>63,965,580</b>	<b>79,264,766</b>
<b>Less: Allowance for impairment</b>		
Water	(81,652,083)	(45,246,733)

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 5. Receivables from exchange transactions (continued)

Sewerage	(27,402,567)	(15,256,501)
VAT	(26,793,301)	(19,104,656)
Interest	(51,876,071)	(35,344,494)
	<b>(187,724,022)</b>	<b>(114,952,384)</b>

### Total debtor past due but not impaired

Past due and impaired	(187,724,022)	(114,952,384)
Past due and not impaired	63,965,581	78,464,063
	<b>(123,758,441)</b>	<b>(36,488,321)</b>

### Reconciliation of allowance for impairment

Balance at beginning of the year	(114,952,384)	(232,254,885)
Contributions to allowance	(72,771,638)	137,177,823
Debt impairment written off against allowance	-	(19,875,322)
	<b>(187,724,022)</b>	<b>(114,952,384)</b>

### Credit quality of receivables

The credit quality of receivables (consumer debtors) that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### Ageing of the receivables impaired

The ageing of these receivables impaired is as follows:

3 to 6 months	-	-
Over 6 months	187,724,022	114,952,384

### 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6,100	6,100
Bank balances	51,332,453	4,006,920
Short-term deposits	99,502,819	64,837,900
	<b>150,841,372</b>	<b>68,850,920</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
FNB Current Cheque Account - (Main) 62358106279	50,135,046	4,002,332	51,322,453	3,996,920
FNB Water Account - 62358438044	10,000	10,000	10,000	10,000
FNB 7 Days Notice Account - 74321014438	49,861,471	11,101,077	48,591,190	11,101,077
FNB Investment Account - 62353578564	47,322	4,850,807	47,322	4,825,783
RMB Call Investment Account - 021900664	-	9,106	-	9,058
Nedbank Investment Account - 7337000049	5,932,316	20,969	5,930,506	20,969
Investec bank Investment Account - 1100461826502	40,106,646	44,585,972	40,106,646	44,585,972
Investec bank Investment Account - 1100461826503	21,810	20,431	21,808	20,431
Standard Bank Account - 308632095-003	245,365	4,273,479	249,847	4,273,479
Standard Bank Account - 035517239	4,517,912	1,218	4,517,912	1,130
Standard Bank Account - 008632095-005	10,381	-	10,381	-
ABSA Investment Account - 9330621802	27,207	-	27,207	-
Petty Cash Account	-	-	6,100	6,100
<b>Total</b>	<b>150,915,476</b>	<b>68,875,391</b>	<b>150,841,372</b>	<b>68,850,919</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position

### 7. Infrastructure

	2018		2017	
	Cost	Accumulated depreciation	Carrying value	Accumulated depreciation
Infrastructure	1,135,922,336	(177,243,230)	958,679,106	1,148,018,382
Infrastructure (Work in progress)	1,156,836,434	-	1,156,836,434	869,457,973
<b>Total</b>	<b>2,292,758,770</b>	<b>(177,243,230)</b>	<b>2,115,515,540</b>	<b>(177,243,230)</b>

### Reconciliation of infrastructure - 2018

	Opening balance	Additions	Transfers from WIP	Transfers	Total
Infrastructure	970,775,152	-	(12,096,046)	-	958,679,106
Infrastructure (Work in progress)	869,457,973	299,474,507	-	(12,096,046)	1,156,836,434
	<b>1,840,233,125</b>	<b>299,474,507</b>	<b>(12,096,046)</b>	<b>(12,096,046)</b>	<b>2,115,515,540</b>

### Reconciliation of infrastructure - 2017

	Opening balance	Additions	Transfers from Work in Progress	Depreciation	Total
Infrastructure	966,172,414	24,192,092	-	(19,589,354)	970,775,152
Infrastructure (Work in progress)	644,760,450	-	(12,409,861)	-	869,457,973
	<b>1,610,932,864</b>	<b>24,192,092</b>	<b>(12,409,861)</b>	<b>(19,589,354)</b>	<b>1,840,233,125</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 7. Infrastructure (continued)

#### Reconciliation of Work-in-Progress

##### Infrastructure assets

Opening balance	869,457,973	644,760,450
Additions: Infrastructure	229,849,718	224,697,523
Transferred to completed items	(12,096,046)	-
	<b>1,087,211,645</b>	<b>869,457,973</b>

This matter is brought to the attention of the users that the Greytown bulk water supply project has not been completed to date with a carrying working in progress value of R217 284 922, due to many delaying matters, one of the matters being the under performance of four contractors who were subsequently terminated.

#### Pledged as security

No infrastructure assets are pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is not yet available for inspection at the registered office of the municipality due to financial system challenges.

### 8. Investment property

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	1,160,845	(312,492)	848,353	1,160,845	(312,492)	848,353

#### Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	848,353	848,353

#### Reconciliation of investment property - 2017

	Opening balance	Transfers	Total
Investment property	894,786	(46,433)	848,353

A register containing the information required by section 63 of the Municipal Finance Management Act is not yet available for inspection at the registered office of the municipality due to financial system challenges.

The direct operating expenses (including repairs & maintenance) arising from investment property is **NIL**.

Rental income from investment property is disclosed on note 20.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position

### 9. Property, plant and equipment

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Buildings	28,880,300	(7,658,790)	21,221,510	28,880,300	(7,658,790)	21,221,510
Buildings(Work in progress)	34,645,019	-	34,645,019	34,645,019	-	34,645,019
Plant and machinery	24,442,203	(14,039,760)	10,402,443	24,442,203	(14,039,760)	10,402,443
Motor vehicles	30,441,655	(12,661,028)	17,780,627	26,531,050	(12,661,028)	13,870,022
Office equipment	10,166,339	(7,221,995)	2,944,344	9,491,275	(7,221,995)	2,269,280
<b>Total</b>	<b>118,575,516</b>	<b>(41,581,773)</b>	<b>86,993,943</b>	<b>123,989,847</b>	<b>(41,581,573)</b>	<b>82,408,274</b>

### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Total
Buildings	21,221,510	-	21,221,510
Buildings(Work in progress)	34,645,019	-	34,645,019
Plant and machinery	10,402,443	-	10,402,443
Motor vehicles	13,870,022	3,910,605	17,780,627
Office equipment	2,269,280	675,064	2,944,344
	<b>82,408,274</b>	<b>4,585,669</b>	<b>86,993,943</b>

### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Total
Buildings	21,462,846	-	-	-	-	-	(241,336)	21,221,510
Buildings(Work in progress)	20,166,825	-	-	-	14,478,194	-	-	34,645,019
Plant and machinery	10,599,788	1,437,606	(10,016)	-	-	942,512	(2,567,447)	10,402,443
Motor vehicles	1,444,477	9,400,059	-	5,291,853	-	(944,108)	(1,322,259)	13,870,022
Office equipment	2,201,573	716,306	(350,605)	-	-	-	(297,994)	2,269,280
	<b>55,875,509</b>	<b>11,153,971</b>	<b>(360,621)</b>	<b>5,291,853</b>	<b>14,478,194</b>	<b>(1,596)</b>	<b>(4,129,036)</b>	<b>82,408,274</b>



## Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

#### Statement of Financial Position

#### 9. Property, plant and equipment (continued)

A register containing the information required by section 63 of the Municipal Finance Management Act is not yet available for inspection at the registered office of the municipality due to financial system challenges.

Transfer/Donations received from COGTA (Disaster Management) for fire service trucks amounting to the value disclosed above in 2016 /2017

#### Pledged as security

No PPE assets are pledged as security.

#### Compensation received for losses on property, plant and equipment – included in operating profit.

Office equipment

338,492	117,055
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# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 9. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress

Opening balance	34,645,019	20,166,825
Additions: Buildings	-	14,478,194
Transferred to completed items	-	-
	<b>34,645,019</b>	<b>34,645,019</b>

### 10. Intangible assets

	2018			2017		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software, other	4,336,068	(3,523,834)	812,234	3,788,068	(3,239,173)	548,895

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	548,895	548,000	(284,661)	812,234

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	1,261,682	187,616	(3,545)	(896,858)	548,895

The carrying value of intangible assets disclosed relate to computer software of R772 010.

### 11. Interest in joint ventures

Name of company	Listed / Unlisted	Carrying amount 2018	Carrying amount 2017
uThukela Water (Pty) Ltd- shortfall funding	Unlisted	268,303,625	295,228,554

#### Reconciliation of Interest in Joint Venture

Opening balance	295,228,554	335,636,255
Share of deficit for current year	(26,353,234)	(40,407,701)
<b>Share of joint venture at 30/06/2018</b>	<b>268,875,320</b>	<b>295,228,554</b>

### 12. Short term liability

DBSA / Endumeni loan	-	669,155
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### 13. Payables from exchange transactions

Trade payables	66,223,792	9,623,451
Accrued expense	24,211,357	38,114,896
Retention held suspense	35,096,145	26,469,224
	<b>125,531,294</b>	<b>74,207,571</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 13. Payables from exchange transactions (continued)

The fair value of trade and other payables approximates their carrying amounts.

### 14. Consumer deposits

Water	459,132	467,239
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The Consumer deposits relates to monies paid for connections before any services could be rendered.

These amounts relates to prior period deposits.

### 15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Rural Transportation Infrastructure Grant	749,954	547,492
Regional Bulk Infrastructure Grant	-	29,536,792
Water Services Infrastructure Grant	36,548,450	6,634,773
Development Planning Shared Services Grant	126,884	30,433
District Growth and Development Summit Grant	300,000	-
	<b>37,725,288</b>	<b>36,749,490</b>

### 16. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Movements	Total
Leave provision	10,792,492	1,199,584	11,992,076

#### Reconciliation of provisions - 2017

	Opening Balance	Movement	Total
Leave provision	10,089,562	702,930	10,792,492

### 17. Long term liabilities

uThukela Water Creditor-Long T	64,191,401	64,191,401
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There's a dispute between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that Umzinyathi municipality owes an amount of R110 734 609 for bulk water services provided but can only prove an amount of R64 191 401.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 18. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-partly or wholly funded	(17,172,000)	(18,661,000)
Fair value of plan assets	(6,449,000)	(5,561,000)
	<b>(23,621,000)</b>	<b>(24,222,000)</b>

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(18,661,000)	(20,615,000)
Current service cost and interest cost	3,460,061	6,601,702
Benefits paid	225,939	311,649
Actuarial loss or (gain)	(2,197,000)	(4,959,351)
	<b>(17,172,000)</b>	<b>(18,661,000)</b>

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(5,561,000)	(4,883,000)
Current service cost and interest cost	(1,275,000)	(1,114,630)
Benefits paid	580,000	600,630
Actuarial loss or (gain)	(193,000)	(164,000)
	<b>(6,449,000)</b>	<b>(5,561,000)</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 18. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.60 %	9.60 %
Medical cost trend rates	9.10 %	9.10 %
Proportion of employees opting for early retirement	0.46 %	0.46 %

The basis on which the discount rate has been determined is as follow:

**Discount Rate-** GRAP 25 defines the determination of the Discount rate assumption to be used as follows: The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve. We used the nominal and real zero curves as at **29 June 2018** supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability.

#### Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period. South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by **2%** per annum over the foreseeable future.

#### Average Retirement Age

The average retirement age for all active employees was assumed to be **63** years. This assumption implicitly allows for ill-health and early retirements..

#### Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

#### Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

#### Spouses and Dependents

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that **90%** of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be **five** years younger than their male spouses at retirement and vice versa.

#### Financial Variables

Actual return on plan assets	8.50 %	8.50 %
Actual return on reimbursement rights	9.10 %	9.10 %
Net effective discount rate	0.55 %	0.55 %

#### Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2018 of **7.36%**. The next salary increase was assumed to take place on 01 July 2019.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 18. Employee benefit obligations (continued)

#### Withdrawal assumption

The table below shows the annual withdrawal rate for the current and previous valuation, differentiated by age

Age	Withdrawal Rate Males %	Withdrawal Rate Females %	Withdrawal Rate Males %	Withdrawal Rate Females %
20-24	16	24	16	24
25-29	12	18	12	18
30-34	10	15	10	15
35-39	8	10	8	8
40-44	6	8	6	6
45-49	4	4	4	4
50-54	2	2	2	2
55-59	1	1	1	1

#### Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	4%	(10/250)*Annual Salary
15	8%	(20/250)*Annual Salary
20, 25, 30, 35, 40, and 45	12%	(30/250)*Annual Salary

#### Membership Data

Membership Data- The key features of the membership data used in the current and prior valuation are summarised below;

Current Employees	Males	Females	Males	Females
Number of active employees	91	67	88	80
Subsidy weighted average age	43,9	40	42,7	39,2
Subsidy weighted average past service	9,2	8,2	8,5	8,5
Number of spouses	31	20		
Average annual salary in rands	1880	1860	1200	1200

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>19. Service charges</b>		
Water re-connection fee	57,671	44,293
Sewerage and sanitation charges	10,484,921	10,488,450
Sewerage / Water new connection fee	-	360,964
Sale of water	56,354,797	33,944,731
Cost of free basic services	(8,718,074)	(511,920)
	<b>58,179,315</b>	<b>44,326,518</b>
<b>20. Rental of facilities and equipment</b>		
Rental of Premises	341,974	400,506
Rental of Staff Houses	69,200	67,200
	<b>411,174</b>	<b>467,706</b>
The amount received on the investment property for rental of premises owned by the municipality totals to R411 174.		
<b>21. Interest earned- outstanding debtors</b>		
Interest earned- outstanding debtors	14,116,532	11,556,733
<b>22. Other income</b>		
Insurance claim refunds (assets)	338,492	117,055
Sale of tender documents	330,740	107,852
	<b>669,232</b>	<b>224,907</b>
<b>23. Interest earned- investments</b>		
<b>Interest revenue</b>		
Bank	16,934,290	12,920,588

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 24. Government grants and subsidies

#### Operating grants

Equitable share	291,518,056	263,531,554
LGSETA Training Grant	199,360	191,507
Operational Government Grants	3,897,549	8,024,376
	<b>295,614,965</b>	<b>271,747,437</b>

#### Capital grants

Capital Government grants	303,530,596	349,983,677
	<b>599,145,561</b>	<b>621,731,114</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 6 kilo litres @ R 6.33 excl of Vat, which is funded from the grant.

#### MIG

Balance unspent at beginning of year	-	12,967,733
Current-year receipts	178,941,000	181,064,000
Conditions met - transferred to revenue	(178,941,000)	(181,064,000)
Adjustment: Rollover approved	-	(12,967,733)
	-	-

#### Conditions

Municipalities must prioritise MIG for eligible beneficiaries and infrastructure that includes: basic residential infrastructure for the poor for water, sanitation, roads, waste management, streetlighting, community facilities as well as associated municipal bulk and connector infrastructure new or upgrading of municipal bulk, connector and reticulation infrastructure to support existing areas and the formalisation of settlements renewal of eligible infrastructure servicing the poor subject to the confirmation by the relevant sector department of the state of infrastructure and a commitment from the municipality of how on-going operations and maintenance of the renewed infrastructure will be funded and performed maintenance of roads infrastructure mainly servicing the poor.

#### Rural Transport Services Infrastructure Grant

Balance unspent at beginning of year	547,492	-
Current-year receipts	2,275,000	2,183,000
Conditions met - transferred to revenue	(1,525,046)	(1,635,508)
Adjustment: Rollover not approved	(547,492)	-
	<b>749,954</b>	<b>547,492</b>

#### Conditions

District municipalities must provide local municipalities with validated information from the condition data collected to enable municipalities to identify and prioritise road maintenance requirements within their own budgets, to improve the condition and extend the lifespan of road infrastructure. District municipalities must participate in grant management structures, including attending quarterly rural RAMS meetings.

Conditions still to be met - remain liabilities (see note 15).

National Treasury did not approve the rollover of the unspent grant of R547 492, which was returned to the National Revenue fund in the current year.

#### Expanded Public Works Programme Grant



# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 24. Government grants and subsidies (continued)

Balance unspent at beginning of year	-	21,554
Current-year receipts	2,444,000	2,350,000
Conditions met - transferred to revenue	(2,444,000)	(2,350,000)
Adjustment: Rollover not approved	-	(21,554)
	-	-

#### Conditions

EPWP projects must comply with the project selection criteria determined in the EPWP grant manual, the EPWP guidelines set by Department of Public Works (DPW) and the Ministerial Determination updated annually on 1 November each year. Eligible municipalities must sign a funding agreement with the DPW before the first grant disbursement, with their final EPWP project list attached. Reports must be loaded on the EPWP reporting system within 15 days after the end of every quarter in order for progress to be assessed. Municipalities must maintain beneficiary and payroll records as specified in the audit requirements in the EPWP grant manual. The EPWP grant cannot be used to fund the costs of permanent municipal personnel; however, a maximum of five per cent of the grant can be used to fund contract based capacity required to manage data capturing and on-site management costs related to the use of labour intensive methods. The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list. To receive the first planned grant disbursement, eligible municipalities must submit a signed Incentive. Subsequent grant disbursements are conditional upon eligible municipalities reporting quarterly on EPWP performance within the required timeframes. Municipalities must implement their approved EPWP project list and meet agreed job creation targets. EPWP branding must be incorporated on any existing signage as per corporate identity manual.

#### COGTA Rural Development Grant

Balance unspent at beginning of year	-	289,088
Conditions met - transferred to revenue	-	(289,088)
	-	-

#### Conditions

The Development grant is assigned to assist the municipality in the development of the municipal economic sector

#### Environmental Management Framework Grant

Balance unspent at beginning of year	-	426,512
Conditions met - transferred to revenue	-	(426,512)
	-	-

#### Conditions

The environmental management framework grant is assigned to assist the municipality in the development of the municipal environment management framework plan.

#### Water Services Operational Grant

Balance unspent at beginning of year	-	3,650,000
Adjustment: Rollover not approved	-	(3,650,000)
	-	-

#### Conditions

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position

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### 24. Government grants and subsidies (continued)

Funds transferred to WSAs must be utilised in line with the approved business plan. The grant may be used to fund refurbishment of water services schemes transferred to WSAs. All receiving municipalities and WSPs will be required to adhere to the Transfer Agreements (TA) with DWS and all subsequent addendums. Receiving municipalities must demonstrate that appropriate operations and maintenance measures are in place to ensure the sustainability of transferred water services schemes. Progress reports on the grant must be submitted on a monthly, quarterly and annual basis. National Treasury did not approve the rollover of the unspent grant of R3 650 000, which was returned to the National Revenue fund in the current year.

#### Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	29,536,792	-
Current-year receipts	80,920,000	106,377,000
Conditions met - transferred to revenue	(80,920,000)	(76,840,208)
Adjustment: Rollover not approved	(29,536,792)	-
	<b>-</b>	<b>29,536,792</b>

#### Conditions

The Regional Bulk Infrastructure Grant (RBIG) is intended to fund the social component of regional bulk water and waste water projects approved by the Department of Water and Sanitation (DWS), unless arguments for exemption based on affordability are recommended by DWS and approved by National Treasury. This grant can be used to build enabling infrastructure required to connect or protect water resources over significant distances with bulk and reticulation systems. The need for a bulk infrastructure solution must be confirmed and accepted by DWS through the regional bulk master planning process. A financing plan with associated co-funding agreements must be in place prior to implementation of RBIG funded projects. All sources of funding for the full cost of the project must be outlined in the IRS and the funding agreement RBIG payments will be made (IA) based on invoices for work done. All projects must be aligned with and referenced to Integrated Development Plans (IDPs) and Water Services Development Plans (WSDPs) as well as a detailed plan which shows alignment of RBIG projects with those funded through the Municipal Infrastructure Grant, Municipal Water Infrastructure Grant and the Water Services Operating Subsidy Grant. A transfer plan must be developed and agreed to prior to the commencement of any new projects.

National Treasury did not approve the rollover of the unspent grant of R29 536 792, which was returned to the National Revenue fund in the current year.

#### Water Services Infrastructure Grant

Balance unspent at beginning of year	6,634,773	-
Current-year receipts	78,693,000	84,111,000
Conditions met - transferred to revenue	(42,144,550)	(77,476,227)
Adjustment: Rollover not approved	(6,634,773)	-
	<b>36,548,450</b>	<b>6,634,773</b>

#### Conditions

To facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation services that ensure provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes and on-site solutions. To support drought relief projects in affected municipalities.

National Treasury did not approve the rollover of the unspent grant of R6 634 773, which was returned to the National Revenue fund in the current year.

Conditions still to be met - remain liabilities (see note 15)

#### Financial Management Grant

Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 24. Government grants and subsidies (continued)

- -

FMG funds can be used towards the following: establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel establishment of SCM capacity, an Internal Audit unit and Audit Committees, at least five interns appointed over a multi-year period on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts review and adoption of a delegation system support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007 preparation and timely submission of annual financial statements for audits support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions technical support in financial management to municipalities must include the transfer of skills to municipal officials, the preparation of a financial recovery plan and the implementation thereof, where appropriate, implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality, ensuring timely submission of the FMG support plan consistent with the conditions of the grant, Regular, timely submission of reports with completed information, Expenditure must be maintained at appropriate levels.

#### Drought Relief Grant

Current-year receipts	-	1,070,740
Conditions met - transferred to revenue	-	(1,070,740)
	-	-

Drilling of production boreholes in Greytown area and to fund water tankers in areas affected by the drought within the district.

#### Shared Services Development Grant

Balance unspent at beginning of year	30,433	6,972
Current-year receipts	300,000	400,000
Conditions met - transferred to revenue	(203,549)	(376,539)
	<b>126,884</b>	<b>30,433</b>

#### Conditions

Optimise planning function and resources in the district to increase efficiency and to reduce cost of service. Create an environment of learning where junior and inexperienced staff can be mentored by more senior officials. Promote continuity where the loss of one staff member should not disrupt services. Promote integration and alignment (IDP-Spatial etc).

Conditions still to be met - remain liabilities (see note 15).

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 24. Government grants and subsidies (continued)

#### District Growth and Development Summit Grant

Current-year receipts	300,000	-
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#### Conditions

The planned Summit is envisaged to strengthen the public private collaborative approach towards the achievement of the KZN Vision 2035 in an integrated, inclusive and sustainable manner. Furthermore, the summit will also inform the work of the District Development Agency including strengthening the corporate governance expectations. The planned Summit is envisaged to strengthen the public private collaborative approach towards the achievement of the KZN Vision 2035 in an integrated, inclusive and sustainable manner. Furthermore, the summit will also inform the work of the District Development Agency including strengthening the corporate governance expectations.

Conditions still to be met - remain liabilities (see note 15).

#### Opathe/Umgungundlovu

Current-year receipts	-	2,239,944
Conditions met - transferred to revenue	-	(2,239,944)
	-	-

Building of water infrastructure from the Umzinyathi district to the Umgugundlovu district.

### 25. Revenue

Government grants & subsidies	599,145,561	621,731,114
Actuarial gain from post retirement benefit	1,217,771	1,642,351
Interest earned- outstanding debtors	14,116,532	11,556,733
Interest received - investment	16,934,290	12,920,588
Other income	669,232	224,907
Gain on disposal of assets	465,581	-
Transfer/donation received	-	5,291,853
Rental of facilities and equipment	411,174	467,706
Service charges	58,179,315	44,326,518
	<b>691,139,456</b>	<b>698,161,770</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	58,179,315	44,326,518
Rental of facilities and equipment	411,174	467,706
Gain on disposal of assets	465,581	-
Other income	669,232	224,907
Interest received - investment	16,934,290	12,920,588
Interest earned- outstanding debtors	14,116,532	11,556,733
	<b>90,776,124</b>	<b>69,496,452</b>

#### The amount included in revenue arising from non-exchange transactions is as follows:

Actuarial gain post retirement benefit	1,217,771	1,642,351
Transfer/donation received	-	5,291,853
Government grants & subsidies	599,145,561	621,731,114

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 26. Employee related costs

Acting allowances	1,952,882	-
Basic	85,114,511	75,213,952
Bonus	6,065,914	5,474,733
Defined contribution plans	11,477,916	10,254,008
Housing benefits and allowances	943,533	1,573,388
Leave provision	3,145,587	2,401,789
Medical aid - company contributions	4,104,989	3,909,966
Overtime payments	7,696,898	7,219,673
SDL	1,086,488	967,752
Shift allowance	2,479,176	2,064,516
Travel, motor car, accommodation, subsistence and other allowances	3,646,576	3,491,750
UIF	645,454	597,051
	<b>128,359,924</b>	<b>113,168,578</b>

### Remuneration of Municipal Manager

Annual Remuneration	422,898	1,015,384
Acting Allowance	-	372,056
Car Allowance	129,100	94,210
Telephone	10,500	14,827
Housing	69,911	-
	<b>632,409</b>	<b>1,496,477</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	1,030,304	430,327
Acting Allowances	-	-
Car Allowance	332,097	206,758
Housing Allowance	111,653	21,744
Telephone	27,277	84,195
Other	74,304	-
	<b>1,575,635</b>	<b>743,024</b>

The Chief Financial Officer had been suspended and there had been a number of acting Chief Financial Officer's appointed during the financial year.

### Remuneration of Senior Manager Community Services

Annual Remuneration	-	597,149
Acting Allowance	40,775	-
Car Allowance	-	73,422
Housing Allowance	-	531,083
Telephone	-	-
Other	-	67,326
	<b>40,775</b>	<b>1,268,980</b>

There had been an acting Senior Manager Community Services appointed during the financial year.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 26. Employee related costs (continued)

#### Remuneration of Senior Manager Technical Services

Annual Remuneration	613,851	435,578
Car Allowance	136,700	72,596
Housing Allowance	114,973	174,999
Telephone	14,007	125,297
Other	87,217	77,896
	<b>966,748</b>	<b>886,366</b>

The Senior Manager Technical Services had been suspended and there had been a number of acting Senior Manager Technical Services appointed during the financial year.

#### Remuneration of Senior Manager Corporate Services

Annual Remuneration	537,485	703,977
Acting Allowance	61,161	-
Car Allowance	66,150	-
Housing Allowance	55,592	225 081
Telephone	13,500	21,778
Other	203,311	143,031
	<b>937,199</b>	<b>1,093,867</b>

The Senior Manager Corporate Services during the financial year had been suspended and an acting Senior Manager Corporate Services had been appointed.

#### Remuneration of Senior Manager Planning and Development

Annual Remuneration	822,459	789,521
Car Allowance	69,600	-
Housing Allowance	56,687	149,858
Telephone	18,000	-
Other	27,245	57,878
	<b>993,991</b>	<b>997,257</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 27. Remuneration of councillors

Mayor	446,400	79,593
Deputy Mayor	581,269	120,268
Mayoral Committee Members	269,641	79,071
Speaker	355,327	69,715
Councillors	2,067,981	2,336,638
Councillors' pension contribution	255,457	168,971
Local authority/ Travel Fees	534,806	18,268
Medical aid contributions	-	8,059
Cellphone and Mobile data	702,248	334,113
Skill levy	46,524	27,305
	<b>5,259,653</b>	<b>3,242,001</b>

### In-kind benefits

The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor, the Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor, the Deputy Mayor and Speaker have bodyguards.

### 28. Depreciation and amortisation

Total depreciation and amortisation	-	24,961,656
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### Depreciation and amortisation by asset class

Buildings	-	241,336
Infrastructure	-	19,589,328
Intangible	-	896,858
Investment property	-	46,434
Motor vehicles	-	1,322,259
Office equipment	-	297,994
Plant and machinery	-	2,567,447
	-	<b>24,961,656</b>

The depreciation and amortisation of all municipal asset has not been calculated due to the fact that the financial system was not able to provide the fixed asset register as well as the calculations of the 2017/2018 financial year.

### 29. Finance costs

Interest paid	86,899	654,839
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Interest rate paid on DBSA - Endumeni loan is 17%.

### 30. Lease rentals on operating lease

#### Premises

Contractual amounts	128,390	-
<b>Lease rentals on operating lease - Other</b>		
Contractual amounts	677,775	1,017,022
	<b>806,165</b>	<b>1,017,022</b>

### 31. Provision for debt impairment

Contributions to debt impairment provision	72,771,638	11,758,124
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## Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

### Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>32. Bulk purchases</b>		
Water	16,089,868	14,335,860
5 107 895 kilo litres of water was purchased @ R3.15 per litre.		
<b>33. Contracted services</b>		
<b>Outsourced services</b>		
Maintenance of Unspecified Assets	112,550,440	108,483,628
Maintenance of Buildings and Facilities	217,132	1,282,854
Information Technology Services	183,426	939,652
	<b>112,950,998</b>	<b>110,706,134</b>



# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
<b>34. General expenses</b>		
Advertising	2,302,052	299,318
Auditors remuneration	3,279,952	2,822,558
Bank charges	108,864	52,009
Cleaning services	50,548	172,219
Bursaries	104,564	722,359
Computer expenses	-	62,621
Consulting and professional fees	-	5,335,388
IDP review costs	-	639,795
Entertainment	19,083	5,412
Fines and penalties	-	103,955
HIV/ AIDS programmes	-	65,366
Hiring of vehicles	1,869,598	-
Pauper Burials	-	27,420
Conferences and seminars	184,285	66,008
Eldery and widows	-	351,151
IT expenses	3,231,047	760,637
Legal costs	3,025,876	3,202,681
Promotions and sponsorships- LED	-	301,144
People with disabilities	-	206,977
Children and Youth	-	11,849
Fuel and oil	3,305,461	3,741,219
Recruitment of staff	-	144,429
Inventory loose tools	-	3,263
IDP sector plans	627,104	648,185
IT expenses- GIS tools	-	168,499
Marketing and Promotions	-	139,476
Project launch costs	-	365,194
LED project costs	1,825,690	1,522,738
License fees	-	743,484
IDP sector plans	-	107,966
Security (Guarding of municipal properties)	6,357,161	8,859,681
Agency development	-	69,736
Subscriptions and membership fees	1,507,289	1,303,736
Telephone and fax	781,020	1,145,462
VAT adjustment	-	(1,838,996)
Travel - local costs	4,476,293	2,366,819
Asset verification expense	-	1,684,000
Water and electricity costs	22,585,565	21,081,725
Utilities - Rates	988,538	705,508
Uniforms	92,436	479,565
Insurance costs	1,457,920	975,044
Sports and culture programmes	1,542,979	1,987,245
Drought relief	-	57,471,719
Corporate materials	7,063	1,137
District cultural events	-	305,434
Rural horse riding events	-	95,773
Disaster relief	373,718	1,151,495
Mayoral imbizo	2,422,829	263,934
Human resource development	558,581	902,848
Chemicals	-	58,800
Sampling of water, milk and food	30,302	61,880
Other expenses	274,574	708,308
	<b>63,390,392</b>	<b>122,634,173</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 35. Prior period errors

The adjustment of prior year errors resulted from incorrect and incomplete accounting.

Adjustment for errors in the prior year is as follows:

#### Statement of Financial Position 2015/2016 FY

Net assets @ 1 July 2016 as previously stated	- 1,241,026,733
Increase in prior year payables from exchange transactions (Trade payables)	- (4,851,896)
Decrease in prior year short term liability	- 435,041
Decrease in prior year receivables from non-exchange transactions (Prepaid creditors)	- (712,337)
	<b>- 1,235,897,541</b>

#### Statement of financial position - 2016/17 FY

Net assets @ 1 July 2017 as previously stated	- 1,493,612,883
Restated payables from exchange transactions	- (4,851,896)
As restated in prior year short term liability	- 435,041
Restated receivables from non-exchange transactions in 15/16 FY	- (712,337)
Increase in prior year payables from exchange transactions (Retentions held)	- (12,658,505)
Increase in prior year infrastructure (Working in progress)	- 12,658,505
Increase in receivables from exchange transactions	- 219,844
	<b>- 1,488,703,535</b>

#### Statement of Financial Performance - 2016/17 FY

Net surplus for 2016/2017 as previously stated	- 252,586,150
Increase in sale of water	- 219,844
	<b>- 252,805,994</b>

### 36. Reclassification of expenditure

#### Expenditure Items

	Amount	Reason
Lease rentals on operating lease	1017022	MSCOA requirement
General expenditure	-1017022	MSCOA requirement
Repairs and Maintenance	-8678485	MSCOA requirement
Contracted Services	8678485	MSCOA requirement
General expenditure	-103044668	MSCOA requirement
Contracted Services	103044668	MSCOA requirement

#### Liabilities

	Amount	Reason
Trade Payables from exchange transactions	-10792492	Reclassification as per GRAP 19
Leave Provision	10792492	Reclassification as per GRAP 19
Trade Payables from exchange transactions	-11992076	Reclassification as per GRAP 19
Leave Provision	11992076	Reclassification as per GRAP 19

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

2018

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#### 37. Cash generated from operations

Surplus	263,882,219	254,578,182
<b>Adjustments for:</b>		
Depreciation and amortisation	-	24,961,656
Loss on sale of assets and liabilities	(465,581)	-
Income from equity accounted investments	26,924,929	40,407,701
Finance costs	86,899	654,839
Debt impairment	72,771,638	11,758,124
Movements in Long term liability	-	(1,028,799)
Movements in retirement benefit assets and liabilities	(601,000)	(1,276,000)
Movements in provisions	1,199,584	702,930
Other non-cash items	(48,300,990)	(19,122,787)
Other non-cash items	6,100	6,100
<b>Changes in working capital:</b>		
Inventories	(530,174)	(6,347)
Receivables from exchange transactions	15,299,186	(25,210,794)
Other receivables from non-exchange transactions	3,748,743	(7,903,886)
Payables from exchange transactions	51,323,730	(4,476,576)
VAT	576,127	(3,699,174)
Unspent conditional grants and receipts	975,798	19,387,631
Consumer deposits	(8,107)	(24,473)
	<b>386,889,101</b>	<b>289,708,327</b>

#### 38. Auditors' remuneration

Internal audit fees	-	185,350
External audit fees - Auditor General (AG)	3,109,446	2,503,908
Audit committee costs	170,506	133,300
	<b>3,279,952</b>	<b>2,822,558</b>

#### 39. MIG Expenditure

Douglas water supply	1,765,730	3,175,920
Makhabeleni water supply	277,442	2,080,238
Mbono Mkhuphula sanitation	13,220,170	25,936,008
Mbono water supply	25,387,695	10,837,357
Mthembu water supply	1,838,403	8,800,361
Muden water supply	31,353,103	45,242,867
Ngubukazi water supply	443,660	-
Nquthu sanitation	8,037,915	11,430,678
Ntinini water supply	2,941,813	11,079,060
Ophathe water supply	2,831,516	5,096,453
PMU Support	7,700,970	9,057,000
Pomery sanitation	-	6,012,006
Sithembile water supply	1,747,889	2,931,371
UDM Disaster center	-	16,505,141
Umsinga water supply	78,803,744	29,814,021
Umvoti Sanitation	2,590,950	6,033,252
	<b>178,941,000</b>	<b>194,031,733</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position	2018	2017
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### 40. Commitments

#### Total commitments

##### Total commitments

Authorised capital expenditure	202,519,358	296,851,521
Authorised operational expenditure	-	-
	<b>202,519,358</b>	<b>296,851,521</b>

This committed expenditure relates to capital commitments and will be financed by government grants.

Commitments are committed for more than a period of twelve months.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	545,835	152,465
- in second to fifth year inclusive	1,241,667	843,421
	<b>1,787,502</b>	<b>995,886</b>

##### Operational commitments

Approved and contracted	27,742,258	-
Approved but not contracted for	-	-
	<b>27,742,258</b>	<b>-</b>

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

Statement of Financial Position

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### 41. Contingencies

#### Umvoti / uThukela Water (Pty) Ltd

Umvoti presented to the municipality an outstanding balance of R407 585 owing by uThukela Water (Pty) Ltd the water service authority whom was responsible for the water reticulation function within the district. Umvoti has liaised with uThukela Water (Pty) Ltd to pay the outstanding balance however uThukela Water (Pty) Ltd has advised Umvoti that the debt be settled by Umzinyathi, since uMzinyathi took over the reticulation function on the 1st of July 2013. The dispute arises because neither uThukela Water (Pty) Ltd or Umvoti has submitted proof of the liability or debt in a form an invoice or any relevant supporting documentation.

uThukela Water (Pty) Ltd

There's a dispute of an amount of R43 400 474 between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that the municipality owes an amount of R110 734 609 but can only prove an amount of R64 191 401.

#### Legal matters pending

There are 6 litigations and value of claims pending against the municipality

#### Umzinyathi District Municipality vs Consultant

Consultant claims payment arising from a contract . Matter is ongoing, to be set down for hearing for rescission application on 6 September 2018. Estimated liability cost R12 207 011.64

#### Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract .The matter is settled. The municipality to pay claim over the next 2 years. Estimated liability cost R7 733 444.18 Interest plus cost of suit

#### Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre trial stage. Estimated liability cost R557 589.96 Interest plus cost of suit

#### Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre trial conference stage. Estimated liability cost R25 470 919.09

#### Umzinyathi District Municipality vs Resident

Claim by resident for injury suffered due to open manhole. Matters adjourned sine die, condonation application opposed by the municipality. Estimated liability cost R300 000

#### Umzinyathi District Municipality vs Supplier

Supplier claims payment arising from a contract. Matter is on pre-trial conference stage. Estimated liability cost R2 915 048.91

### 42. Related parties

#### Related party transactions

##### Purchases from related parties

Uthukela Water(Pty) Ltd - bulk water	16,122,160	14,335,860
Uthukela Water(Pty) Ltd - services on drought relief project	-	2,098,040
Uthukela Water(Pty) Ltd - operations and maintenance outstanding balance	64,191,401	64,191,401
Uthukela Water(Pty) Ltd - services on tayside project	6,531,186	-

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

#### 43. Risk management

##### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

##### Credit risk

##### Financial instruments - Investments and receivables

Cash and cash equivalents	151,407,980	68,850,920
Other receivables	13,827,019	17,791,277
Receivables from exchange transactions	63,965,581	79,044,922
	<b>229,200,580</b>	<b>165,687,119</b>

##### Liabilities and creditors

Long term liability	64,191,401	64,191,401
Payables from exchange transactions	125,990,431	74,674,808
	<b>190,181,832</b>	<b>138,866,209</b>

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

##### Receivables

Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

##### Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any significant exposure to credit risk.

##### Market risk

##### Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable costs do not have a material impact on surplus. All long-term debt are at fixed rates.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

#### 44. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

#### 45. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- An assessment for a VAT claim for the month of April 2018 was only conducted in July after the reporting date.

#### 46. Fruitless and wasteful expenditure

Opening balance	368,898	265,205
Fruitless and wasteful expenditure	33,370	103,693
Less: Amount recommended for write off by MPAC to council and a report for ratification to be tabled to council	(402,268)	-
	-	368,898

Late receipts on invoices by the municipality due to the mail being directed to UThukela Water instead of UDM after the take-over.

Post Office delays in the year 2015/2016 financial year.

Cashflow constraints led to non-compliance of payments of creditors within 30 days.

#### 47. Irregular expenditure

Opening balance	742,692,011	498,593,458
Add: Irregular Expenditure - current year	211,221,691	244,098,553
Less: Amount recommended for write off by MPAC to council and a report for ratification to be tabled to council	(374,286,250)	-
	579,627,452	742,692,011

#### Expenditure under S106 Investigations

Current year	117,001,585	-
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#### 48. Additional disclosure in terms of Municipal Finance Management Act Section 125

##### Audit fees

Current year subscription / fee	3,279,952	2,822,558
Amount paid - current year	(3,279,952)	(2,822,558)
	-	-

##### VAT

VAT receivable	15,194,852	15,770,979
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All VAT returns have been submitted by the due date throughout the year.

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

#### 48. Additional disclosure in terms of Municipal Finance Management Act Section 125 (continued)

##### Councillors' and employees' arrear consumer accounts

The following Councillors and Employees had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mahaye TM & ML	2,020	35,085	37,105
Councillor Yengwa MS	409	9,929	10,338
Councillor Chambule BS	412	1,020	1,432
Africa LM	1,255	8,729	9,984
Ntombela VB	754	2,283	3,037
Zulu VD	63	3,205	3,268
Mncube TE	571	1,288	1,859
Mkhwanazi SC	1,492	9,072	10,564
Madonsela TC	817	13	830
Shangase CB	184	110	294
Mawila MP	456	1,998	2,454
Mnguni NM	257	1,142	1,399
Moodley S	-	42	42
Zungu Z	635	463	1,098
Mtshali TC	2,360	5,282	7,642
Nzimakwe N	415	363	778
30 June 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mahaye TM & ML	1,697	32,358	34,055
Councillor Yengwa MS	305	9,199	9,504
Councillor Chambule BS	418	1,316	1,734
Councillor Bedassi I	1,641	-	1,641
Councillor Mfeka JA	174	-	174
Africa LM	1,328	20,783	22,111
Mkhanazi SC	1,170	10,419	11,589
Twala NB	791	7,619	8,410
Mlambo RK	437	6,011	6,448
Zulu VD	78	4,748	4,826
Mawila MP	689	3,527	4,216
Mazibuko LB	121	3,773	3,894
Khumalo P	1,717	2,117	3,834
Mncube TE	336	3,407	3,743
Malunga T	958	2,372	3,330
Malunga MS	-	2,388	2,388
Nzimakwe N	202	514	716
Ntuli DS	56	68	124
Moodley S	(9)	51	42
Ndlovu STN	-	3	3
	<b>12,109</b>	<b>110,673</b>	<b>122,782</b>



# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

#### 48. Additional disclosure in terms of Municipal Finance Management Act Section 125 (continued)

##### Supply chain management regulations

In terms of section 13(C) (i) & (ii) of the Municipal Supply Chain Management Regulations. The following expenses incurred below are non compliant with the regulation.

##### Suppliers

Harvey World Travel	-	1,282,366
Duduzekani Funeral & Tombstone	-	3,000
Isizwe Funeral services	-	6,000
Sinotho Electrical Civil	-	30
Lakalaka Trading	-	9,000
True blue foods	-	5,070
Sindele Intokozoyam trading and construction	-	2,400
	-	<b>1,307,866</b>

#### 49. Deviation from supply chain management regulations

Quotatons: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. Bids: In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

##### SCM regulations 36

Expenditure incurred	459,616	1,789,449
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#### 50. Water loss distribution

##### Water produced per water treatment plant

Msinga Fabeni WTW	2,210	2,255
Msinga Keats Drift WTW	180,334	343,736
Msinga Sampofu (Tugela Ferry) WTW	1,295,883	1,152,094
Msinga Sampofu Weir (Pomeroy) WTW	47,190	40,426
Umvoti Makhabeleni WTW Meter	431,205	365,295
Umvoti Greytown WTW	561,085	563,054
Umvoti Muden WTW	776,176	687,529
Umvoti Kranskop WTW	163,993	163,992
Nquthu Isandlwana WTW	109,895	90,450
Nquthu Nondweni WTW	495,816	539,270
Nquthu Nquthu/Vant's Drift WTW	2,875,650	3,061,810
Nquthu Qudeni WTW	96,268	626,020
Endumeni Biggarsberg WTW	5,360,503	4,967,431
	<b>12,396,208</b>	<b>12,603,362</b>

##### Total water loss

Total water produced	(12,396,208)	(12,603,362)
Total water sold	5,502,097	4,778,433
	<b>(6,894,111)</b>	<b>(7,824,929)</b>

The monetary value of water loss is R21 716 449.65 (2016, R23 161 789.84).

The water loss percentage is 56% (2016, 62%).

- Umzinyathi District Municipality is mostly dominated with rural areas
- Most of our rural areas have stand pipes per standards set by Water Affairs
- Other rural areas have no water infrastructure thus water tankers are delivering water to them and these tankers are getting water from our plants and collection point sets in our water network

# Umzinyathi District Municipality

Annual Financial Statements for the year ended 30 June 2018

## Notes to the Annual Financial Statements

### Statement of Financial Position

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#### **50. Water loss distribution (continued)**

- The municipality experienced a lot of burst pipes in our reticulation line due to aging infrastructure.
- Illegal connections in most of our rural areas have huge impact in unaccounted water as they are most metered.
- The municipality has experienced a lot of internal leaks from domestic consumers and there's a programme that the municipality will be running to fix these leaks.

#### **51. Transfer of functions Between entities not under common control**

Uthukela Water (Pty) Ltd is an entity of three WSA's, namely Amajuba DM, Newcastle LM and Umzinyathi DM. The interest in this joint venture is at 33,3%, 33,4% and 33,3% respectively.

The voting rights are represented by the percentage shareholding in the entity. The transfer of function was initiated by the directive from the MEC: COGTA.

It stipulated that the function, including the infrastructure assets must be transferred back to the WSA's. The process was started and completed by the 30 June 2014. This arrangement is currently in place. Refer to note 7 for further details.